

Message Text

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INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
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SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
INRE-00 NSCE-00 SSO-00 ICAE-00 H-01 L-03 PA-01
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O R 232007Z JUN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 3819
INFO ALL OECD CAPITALS
AMEMBASSY BRUSSELS
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C O R R E C T E D C O P Y F O R P A R A T W O

E.O. 11652: N/A
TAGS: ETRD, OECD
SUBJECT: COMMON FUND: MEETING OF OECD HIGH LEVEL
GROUP ON COMMODITIES (HLGC) JUNE 23, 1978
1. SUMMARY: HLGC DISCUSSED GENERAL STATE OF NEGOTIA-
TIONS ON A COMMON FUND, REVIEWED WORK OF AD HOC GROUP
ON OTHER MEASURES AND MANAGEMENT AND VOTING, AND
EXCHANGED VIEWS ON COMING MEETING OF UNCTAD AD
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HOC INTERGOVERNMENTAL COMMITTEE. GROUP AGREED THERE
WAS NOT YET INDICATION OF ENOUGH G-77 MOVEMENT TO
JUSTIFY AGREEMENT TO RESUME FORMAL NEGOTIATIONS, AND
ENCOURAGED USE OF INFORMAL GENEVA CONSULTATIONS TO
PROBE G-77 POSITIONS ON MAIN STICKING POINTS SUCH AS
DIRECT CONTRIBUTIONS AND OTHER MEASURES. DEBATE
REVEALED CONSIDERABLE DIFFERENCES IN APPRECIATION

AMONG DELS AS TO EXTENT GROUP B AND G-77 HAD MOVED AND WHETHER GROUP B SHOULD BE MORE POSITIVE ON ISSUE OF DIRECT CONTRIBUTIONS, BUT NEWLY ELECTED CHAIRMAN KNIGHTON'S (UK) SKILLFUL SUMMARY STRUCK GOOD BALANCE AND STRESSED THAT ANY GROUP B FLEXIBILITY MUST BE MATCHED BY MOVEMENT BY G-77. HLGC ENDORSED AD HOC GROUP CHAIRMAN'S (WENDT, US) SUMMARY OF PROGRESS MADE ON OTHER MEASURES AND VOTING AND MANAGEMENT, AND COMMISSIONED FURTHER WORK ON THESE TOPICS AS WELL AS ON MAIN ISSUES CONNECTED WITH CAPITAL STRUCTURE OF CF. WITH RESPECT TO JULY MEETING OF UNCTAD AD HOC INTERGOVERNMENTAL COMMITTEE, GROUP AGREED IT SHOULD BE PREPARED TO ADDRESS POSSIBLE ISSUE OF SETTING DATE FOR RESUMED CF CONFERENCE AND SHOULD NOT BE DEFENSIVE ABOUT PROGRESS MADE ON NEGOTIATIONS ON INDIVIDUAL COMMODITIES. HLGC IS SCHEDULED TO MEET AGAIN SEPTEMBER 22. DATES FOR NEXT MEETING OF AD HOC GROUP WERE CONFIRMED FOR JULY 20-21. END SUMMARY.

2. STATUS OF COMMON FUND NEGOTIATIONS: NEWLY ELECTED HLGC CHAIRMAN KNIGHTON (UK) OPENED MEETING WITH TOUR DE TABLE ON WHERE CF NEGOTIATIONS STAND AFTER COREA'S INFORMAL MEETINGS IN GENEVA. GENEVA GROUP B COORDINATOR AMB. HESSEL (FRANCE) SUMMARIZED MAY 18-19 MEETING AND LARGE NUMBER OF DELS OFFERED COMMENTS. BROAD CONSENSUS WAS THAT LIMITED OFFICIAL USE

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CONSULTATIONS HAD PROVED USEFUL AND WERE CERTAINLY NECESSARY, BUT THAT SOME INFORMAL INDICATION OF G-77 WILLINGNESS TO MOVE WAS NEEDED BEFORE ANY AGREEMENT TO RESUME FORMAL NEGOTIATIONS. MANY DELS WERE PESSIMISTIC AND UNCERTAIN THAT SUCH A DECISION COULD BE TAKEN SOON. DELS AGREED GROUP B SHOULD NOT REFUSE TO SHOW FLEXIBILITY IN CONTEXT OF A PACKAGE DEAL BUT THAT ANY SUCH FLEXIBILITY WOULD HAVE TO BE MATCHED BY MOVEMENT BY G-77. GROUP FELT PRESSURE TO SET DATES FOR RESUMED NEGOTIATIONS MIGHT WELL ARISE DURING JULY MEETING OF AD HOC INTERGOVERNMENTAL COMMITTEE AND THAT IN LIGHT OF RESULTS OF GENEVA CONSULTATION JUNE 26-27, GOVERNMENTS WOULD HAVE TO BE PREPARED TO ADDRESS THIS ISSUE.

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RESUMED NEGOTIATIONS MIGHT WELL ARISE DURING JULY
MEETING OF AD HOC INTERGOVERNMENTAL COMMITTEE AND
THAT IN LIGHT OF RESULTS OF GENEVA CONSULTATION JUNE
26-27, GOVERNMENTS WOULD HAVE TO BE PREPARED TO
ADDRESS THIS ISSUE.

3. DEBATE ON THIS ISSUE CONCENTRATED ON CAPITAL
STRUCTURE AND REVEALED SOME INTERESTING AND
DIVERGIRG VIEWPOINTS. JAPANESE DEL (KOBAYASHI) SAID
HE HAD TOLD MALAYSIANS THAT LIMITED FINANCIAL 2ND
WINDOW, DIRECT CONTRIBUTIONS FOR ADMINISTRATIVE
EXPENSES, AND GOVERNMENT GUARANTEES FOR CF BORROWING
MIGHT BE POSSIBLE IF G-77 WOULD ACCEPT POOLING AS MAJOR
SOURCE OF CF FINANCING. HE ALSO INDICATED TO
MALAYSIANS JAPANESE WILLINGRESS TO CONSIDER DIRECT
CONTRIBUTIONS TO CAPITAL STRUCTURE. HE SAID MALAY-
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SIANS' RESPONSE, THOUGH NOT ENTHUSIASTIC, LED GOJ TO
BELIEVE DIFFERENCES BETWEEN GROUP B AND G-77 WERE
QUANTITATIVE BUT NOT QUALITATIVE AND GAP WAS NARROWING.
AUSTRALIA ALSO THOUGHT G-77 HAD ABANDONED MORE EXTREME
IDEAS. BELGIUM AND FRG TOOK ISSUE WITH THIS, NOTING
G-77 STILL CLUNG TO SOURCE-TYPE FUND NOT ACCEPTABLE TO
GROUP B. FRG REP SAID GROUP B PROPOSAL MIGHT HAVE

ROOM FOR SOME FORM OF DIRECT CONTRIBUTIONS (HE EXPLAINED PRIVATELY THAT HE WAS THINKING OF LOSS RESERVE FUND IDEA), BUT PHILOSOPHY DIFFERED TOTALLY FROM G-77 PROPOSAL. FRANCE SAID COREA'S TARGET OF \$500 MILLION IN DIRECT CONTRIBUTIONS HAD NO RATIONALE IN AN ICA-BASED CF, THAT IDEA CF COULD LEND FOR STOCKS OUTSIDE ICAS CAUSED SERIOUS PROBLEMS, AND THAT 25/75 DEPOSIT/CREDIT RATIOS WAS UNWORKABLE. UK TOOK SIMILAR LINE AND COMPLAINED G-77 WAS NOT SHOWING ITS CARDS, EVEN WITH RESPECT TO COREA'S PROPOSALS. CANADA AGREED COREA SYSTEM WAS IN EFFECT NOT ICA-BASED AND 25/75 RATIO WAS IMPOSSIBLE. DENMARK PROPOSED DIRECT CONTRIBUTIONS FORM A RESERVE ACCOUNT AND BE SET AT SOME PROPORTION OF TOTAL CF COMMITMENTS. CONTRIBUTIONS COULD BE PHASED IN GRADUALLY AS ICAS JOINED CF.

4. US (WENDT) SAID GROUP B PROPOSAL, WITH SUITABLE MODIFICATIONS (E.G. IN DEPOSIT/CREDIT RATIOS), REMAINED MOST CONSTRUCTIVE BASIS FOR RESUMING NEGOTIATION AND STRESSED LONG WAY US AND GROUP B HAD COME IN LAST YEAR, INCLUDING ACCEPTANCE OF PRINCIPLE OF JOINT FINANCING OF BUFFER STOCKS. HE URGED FURTHER MOVES BE MADE ON ECONOMIC MERITS AND NOT JUST THE PERCEIVED POLITICAL NEEDS OF THE MOMENT. WENDT NOTED GROUP B-TYPE CF WAS FINANCIALLY VIABLE IF ICA DEPOSITS WERE ADEQUATE AND ITS MANAGEMENT SOUND, AND THAT CF LIMITED OFFICIAL USE

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WITH \$500 MILLION DIRECT CONTRIBUTIONS WAS CLEARLY EFFORT TO SHIFT BURDEN OF FINANCING ICAS FROM THEIR MEMBERS TO THE INTERNATIONAL COMMUNITY AS A WHOLE AND COULD HARDLY BE CONSISTENT WITH ICA AUTONOMY.

5. OTHER MEASURES AND VOTING AND MANAGEMENT: GROUP HEARD REPORT FROM AD HOC GROUP'S CHAIRMAN (WENDT, US), WHO NOTED QUITE A NUMBER OF DELS WERE WILLING TO CONSIDER FINANCIAL ROLE FOR CF ON OTHER MEASURES, PROVIDING SCOPE WAS STRICTLY DEFINED, CONTRIBUTIONS WERE VOLUNTARY, AND NUMBER OF OTHER CONDITIONS WERE FULFILLED. HE POINTED OUT THAT IN ANOTHER VIEW NO CASE HAD BEEN MADE FOR SUCH A ROLE, ALTHOUGH CF COULD HELP MOBILIZE RESOURCES FROM OTHER INSTITUTIONS AND MIGHT SPONSOR CONSULTATIVE GROUP INCLUDING UNDP, WITH SPECIAL TRUST FUND IN LATTER TO PROVIDE INCREMENTAL RESOURCES FOR PROJECTS IN RESEARCH AND DEVELOPMENT AND MARKET PROMOTION. ON MANAGEMENT AND VOTING, CHAIRMAN INDICATED CONVERGENCE OF GROUP'S VIEWS IN A NUMBER OF AREAS, INCLUDING A) GENERAL OBJECTIVES OF DECISION MAKING MECHANISM, B) PLENARY/EXECUTIVE BOARD/STAFF STRUCTURE, C) USE OF QUALIFIED OR DISTRIBUTIVE MAJORITIES TO PROTECT GROUP B INTERESTS, WITH MANY

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DELS LEANING TOWARD LATTER. THERE WAS LITTLE DISCUSSION
ON THESE ISSUES (BEYOND QUESTION OF FUTURE WORK REPORTED
BELOW) AND HLGC ENDORSED WENDT'S SUMMARY.

6. UNCTAD AD HOC INTERGOVERNMENTAL COMMITTEE: HLGC
AGREED GROUP B WILL NEED TO COORDINATE ON THE SPOT
IN GENEVA WITH RESPECT TO TREATMENT OF ISSUE OF ONGOING
COMMODITY NEGOTIATIONS AT JULY MEETING. DELS STRESSED
THAT PROBLEMS WITH PROGRESS IN THESE TALKS HAD NOT
BEEN DUE TO LACK OF POLITICAL WILL ON GROUP B'S PART,
AND THAT IN SOME CASES LDC PRODUCER DISAGREEMENT HAD
BEEN MAIN STUMBLING BLOCK. THERE WAS CONSENSUS
THAT GROUP B SHOULD NOT BE DEFENSIVE ABOUT ITS
POSITION, SHOULD TAKE POSITIVE ATTITUDE ON PROGRESS
THAT MIGHT EVENTUALLY BE ACHIEVED, AND SHOULD OPPOSE
ANY ATTEMPT TO HAVE COMMITTEE ASSUME ANY SORT OF
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SUBSTANTIVE ROLE.

7. FUTURE WORK: HLGC COMMISSIONED AD HOC GROUP ON COMMON FUND TO CONTINUE ITS WORK AND EXAMINE FOLLOWING POINTS IN PARTICULAR:

A) CAPITAL STRUCTURE: AMID GENERAL RECOGNITION THAT UNCTAD'S PROPOSED 25/75 DEPOSIT/CREDIT RATIO IS UNVIAABLE, GROUP SHOULD CONSIDER -- ON FINANCIAL GROUNDS -- HOW FLEXIBLE IT CAN BE ON THIS ISSUE. IMPLICATIONS OF UNCTAD PROPOSALS ON CALLABLE CAPITAL AND GUARANTEES SHOULD BE EXAMINED. FINALLY, GROUP SHOULD CONSIDER WHETHER AND TO WHAT EXTENT THERE IS ANY ECONOMIC RATIONALE FOR DIRECT CONTRIBUTIONS TO 1ST WINDOW OF CF, AND HOW ANY SUCH RATIONALE SHOULD BE REFLECTED IN THE CONDITIONS ON THE PROVISION AND USE OF SUCH CONTRIBUTIONS.

B) OTHER MEASURES: WORK SHOULD BE CONTINUED TO DEFINE POSSIBLE ROLE OF CF IN THIS FIELD AND HOW TO ENSURE THIS ROLE IS COMPLEMENTARY TO AND SUPPOORTIVE OF EXISTING INSTITUTIONS.

C) MANAGEMENT AND VOTING: FURTHER CONSIDERATION SHOULD BE GIVEN TO IMPLICATIONS OF QUALIFIED AND DISTRIBUTED MAJORITIES, MEANS FOR REFLECTING MEMBER GOVERNMENT ECONOMIC INTEREST IN VOTING SYSTEMS, AND THE DIFFERENT KINDS OF DECISIONS AND KIND OF MAJORITY NEEDED FOR THEM.

8. NEXT MEETINGS:: HLGC CONFIRMED THAT AD HOC GROUP SHOULD MEET JULY 20-21. HLGC ITSELF PLANS TENTATIVELY TO MEET SEPTEMBER 22, THOUGH GROUP AGREED IT MIGHT BE NECESSARY TO MEET AT END OF JULY OR BEGINNING OF AUGUST IF SUBSEQUENT DEVELOPMENTS WARRANTED IT. LIMITED OFFICIAL USE

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Message Attributes

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